

**Office of Inspector General
U.S. Department of State
U.S. Arms Control and Disarmament Agency
U.S. Information Agency, including
Broadcasting Board of Governors**

Reports and Testimony

March 1999

This report describes testimony provided by the Inspector General or other OIG officials and lists OIG reports issued during the period indicated. This report includes unclassified summaries of classified reports; all text in this report is unclassified. Classified reports are not distributed publicly. On occasion OIG distributes an unclassified version of a classified report; in such a case, this listing also indicates the issue date of the original report. In addition, all major reports, together with OIG investigative activities, are summarized in the Inspector General's semiannual reports to the Congress, which are publicly available every June and December.

Congressional and Outreach Activities

TESTIMONY

International Y2K Issues

On March 5, the Inspector General testified before the Senate Special Committee on the Year 2000 Technology Problem on international implications of the Year 2000 (Y2K) computer problem. The presentation highlighted findings from ongoing OIG work in assessing Y2K readiness of countries where the United States maintains a diplomatic presence. OIG analyzed Y2K host country assessments from 74 countries and conducted on-site assessments in 20 of these countries. The Inspector General emphasized several key findings including: an effective Y2K policy framework is needed to ensure that U.S. strategic interests are not adversely affected by Y2K-related failures on January 1, 2000; some industrialized nations risk Y2K related failures because they were late in establishing Y2K leadership at the national level; developing countries may not be at the same level of Y2K related risk as are the more developed countries because of the relatively low level of computerization in key sectors (e.g., utilities, telecommunications, and transportation); former Eastern bloc countries are late in getting started and are generally unable to provide detailed information on their Y2K remediation programs; and, readiness problems in the health care sector are apparent in a majority of the countries evaluated.

OIG Budget Request

The Inspector General provided a statement for the record in support of the FY 2000 budget request for the OIG to the House Appropriations Committee, Subcommittee on Commerce, Justice, State, the Judiciary, and Related Agencies. The statement describes the work of the OIG pursuant to OIG's strategic objectives as well as plans to provide OIG oversight of \$1.4 billion in emergency security funds for the Department of State to enhance overseas security following the 1998 bombings in Nairobi and Dar es Salaam.

Security at U.S. Missions Abroad

The Inspector General provided a statement for the record to the House International Relations Committee, Subcommittee on International Operations and Human Rights, on OIG's oversight of security at U.S. missions abroad. Since August of last year, OIG has concentrated much of its security oversight work on measures that the Department might take to mitigate imminent security vulnerabilities. The Inspector General highlighted key findings of OIG's security oversight work and provided recommendations to improve security, including key

management challenges to reducing security vulnerabilities at the Department of State and U.S. missions overseas. Recommendations included: developing new alarms and drills for bomb attacks, clarifying lines of authority, enhancing emergency preparedness, improving the management and support of local guard programs, and increasing setbacks where possible.

CONGRESSIONAL REQUESTS

Major Management Challenges

The Inspector General highlighted major management challenges facing the Department in a letter to the Chairman and Ranking Minority Member of the Senate Governmental Affairs Committee. The letter provided an overview on the progress made by the Department in three major areas: security vulnerabilities overseas, Year 2000 readiness, and implementation of the Government Performance and Results Act. Other significant challenges highlighted included the need to strengthen border security, implementation of the Border Biometrics Program, weaknesses in financial management, and improving management and maintenance of real property.

Open OIG Recommendations

In response to a request from the chairman of the House Government Reform Committee, OIG prepared a listing of significant OIG recommendations not yet implemented, and the reasons they remained open. OIG provided this information to the Chairman and Ranking Minority Member.

OUTREACH ACTIVITIES

Anti-Corruption Efforts

The Inspector General traveled to China in March to continue a dialogue initiated in 1997 by Embassy Beijing and the Department's Bureau of East Asian and Pacific Affairs, with the Chinese Ministry of Supervision. The Inspector General's delegation, which included representatives from the U.S. Office of Government Ethics (OGE), met with PRC officials in Beijing, and Shanghai, as well as officials from the province of Hangzhou, and the directors of its civil service Ethics Training Center. The five-day exchange focused on: (1) Conflict of Interest and Standards of Conduct, (2) Relationships Among Units of Government Engaged in Anti-Corruption Efforts, (3) Whistleblower Protection, (4) Transparency, Public Disclosure, and Privacy in Government Operations; (5) Supervision and Training of Law Enforcement Personnel, and (6) Education of Civil Servants Engaged in Anti-Corruption Efforts. The Inspector General was also invited to chair an international panel in Hong Kong, as part of the

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Hong Kong Independent Commission Against Corruption's "Silver Jubilee Conference." The conference had the expressly stated purpose of "promoting clean government." The Inspector General was one of 400 delegates from 52 countries, representing 180 law enforcement entities worldwide. The panel entitled, "Closing Loopholes and Enlisting Support" was comprised of law enforcement experts from Hong Kong, England, Australia, and the Netherlands and addressed how best to safeguard against corruption and enlist public support for such efforts.

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Reports Issued by the Office of Audits

Unreasonable Contractor Profit on an Asbestos Abatement Project at Embassy Tirana (99-PP-009)

OIG reviewed allegations of unreasonable profit on a firm-fixed-price (FFP) order under an indefinite deliver/indefinite quantity (ID/IQ) contract for asbestos abatement at Embassy Tirana. The allegations were that the profit on the delivery order was exorbitant due to fewer workers and less time spent on site than was proposed, possible collusion in the preparation of the Independent Government Cost Estimate (IGCE), and that the contract's scope of work was greatly exaggerated. The objective of the review was to examine the merits of the allegations and the procedures used in these procurement actions. Concurrently, OIG performed a limited survey of other Department FFP orders under ID/IQ contracts to determine if similar circumstances existed.

OIG estimates that the contractor earned a profit of about 51 percent (\$108,736) of the delivery order amount in Tirana. Further, OIG estimates that the contractor earned \$967,034 in profit, an average total profit of 38 percent, on eight other delivery orders under its ID/IQ contract versus an average government estimate of about 6 percent for the eight delivery orders. The contractor's high profit generally resulted from finishing projects in far less time and with fewer personnel than either the contractor or the Department estimated.

OIG found no evidence of collusion between the contractor and the contracting officer's representative, but found several factors related to why the contractor consistently achieved such a high profit. These included shortcomings in the Department's methodology in preparing IGCEs; difficulties in estimating costs so that FFP orders may not be the most appropriate contract method for asbestos abatement work; and failure to modify asbestos abatement delivery orders to reflect reductions in the scope of work. OIG also found that A/FBO approved advance payments to the contractor for the costs that had not yet been incurred, such as per diem. On the eight delivery orders reviewed by OIG, the contractor was paid approximately \$53,248 for liability insurance costs it may not have incurred.

OIG did not find a pattern of high profits on two other asbestos abatement contracts, primarily because some costs were paid on a reimbursable basis. Further, the circumstances that led to high profit in the Tirana case appeared unlikely to have occurred to any great extent under the Department's other FFP orders under ID/IQ contracts, because the vast majority of these were competitively obtained goods rather than services.

OIG recommended that A/FBO improve preparation of IGCEs, improve contract administration, change the type of contract used for asbestos abatement services, and recover liability insurance costs paid to the contractor. From findings and analyses, OIG estimated that the Bureau of Administration could put \$403,000 annually to better use by making more contract costs as reimbursables and improving IGCE estimates

Inquiry into Contractor Allegations (99-PP-011)

OIG reviewed allegations from a contractor concerning actions of the Department of State's Office of Major Federal Information Processing Acquisitions. Specifically, the contractor's attorneys alleged that Department contracting officials induced the contractor to provide services that exceeded funding limitations, structured task orders to assure that subcontractors were paid in precedence over the contractor's employees, and assigned more than 50 percent of the work to subcontractors contrary to contract requirements. It was also alleged that the Department inappropriately threatened to pursue debarment proceedings against the contractor because the contractor had not paid its subcontractors.

OIG found no evidence to support allegations that the Department induced the contractor into exceeding funding limitations or structured task orders to ensure that subcontractors were paid in precedence over the contractor's employees. However, subcontractors did perform more than 50 percent of the work under the contract, in violation of contract provisions and requirements of the Small Business Administration (SBA). OIG did not find that the Department's preliminary inquiry into debarment of the contractor constituted an improper threat of debarment; however, OIG concluded that the contracting officer may have displayed poor judgment in this matter by involving the government in a matter that was not legally its concern.

In addition, OIG found that the contracting officer was inappropriately involved in the selection of subcontractors under this and other contracts, creating the appearance that the integrity of the acquisition process may have been violated. OIG also found that the same official requested and obtained an extension on a contract for an outside counsel to support the Department's information technology acquisitions. Since the Office of the Legal Adviser had advised this official that it would not recommend the extension because it could provide adequate legal services, this contract extension appeared unnecessary and not in the Department's best interests. OIG recommended Department actions to strengthen compliance with provisions and requirements of contracts with SBA and to better monitor contractor performance. This report also recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, ensure that contracting officers not oversee contracts supporting their own programs. This office should also consider terminating the contract for the outside counsel and deobligating any remaining funds under the contract. Terminating the contract could result in \$26,667 in funds put to better use. The Office of Logistics Management, Bureau of Administration, concurred with most of the report's recommendations but disagreed

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with terminating the contract for the outside counsel, asserting that its use was declining and termination was unnecessary.

Selected Radio Free Europe/Radio Liberty Administrative Practices (99-IB-012)

The objective of this review was to determine the progress made by Radio Free Europe/Radio Liberty (RFE/RL) management to correct previously reported weaknesses or deficiencies related to procurement and contract activities, personnel practices, travel practices, and property management. In collaboration with the Broadcasting Board of Governors, RFE/RL has made major strides in correcting some of its deficiencies but still needs to correct difficulties with a sole source labor services contract.

This contract, which provides almost 50 percent of RFE/RL's workforce, has never been properly subjected to the free and open competition required by OMB circulars on grants and nonprofit organizations. OIG recommended that BBG direct RFE/RL to correct this through appropriate competitive procurement action. OIG also recommended that RFE/RL ensure that it has the necessary organization in place to conduct competitive procurements at the RFE/RL Broadcast Center. After reviewing RFE/RL's procurement procedures, OIG made two additional recommendations designed to ensure verification of contractor reimbursable cost information and to eliminate a potential conflict of interest situation for employees and contractor personnel engaging in procurement functions.

Other weaknesses were created by RFE/RL management's relationship with the firm holding the labor services contract. Some RFE/RL managers perform activities that the contractor is paid to do, in some cases even directly supervising contractor employees. OIG recommended that RFE/RL cease this practice and fill positions requiring direct control by other means, such as through personal services contracts. RFE/RL managers are also interviewing and selecting personnel, appraising personnel performance, and approving and directing the contractor to grant salary increases, bonuses, and promotions - again, services that the contractor is being paid to provide. Engaging in these activities has created a conflict of interest for certain RFE/RL managers who are responsible for the issuance and administration of this same contract. OIG recommended that RFE/RL amend the contract terms to equate payments to the contractor to the level of management services provided and to specify the managerial responsibilities of both the contractor and RFE/RL. In addition, OIG found that RFE/RL is providing benefits to contractor employees, such as paid sick leave and training, that are outside the contract. OIG recommended that these benefits either be included within the contract terms or separately approved by BBG in the Grant Agreement.

RFE/RL's improvements include reducing the number of executive positions, eliminating excessive grades and compensation, establishing compliant travel and home leave policies and procedures uniformly applied to all employees, developing property management policies and controls, and establishing a Central Property Office that completed two physical inventories.

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With respect to OIG recommendations for improvement, the Chairman of BBG said the Board was committed to correcting the deficiencies related to RFE/RL's labor services contract. The Chairman also said the board was hiring an independent consultant to review how RFE/RL can best obtain labor services in Prague, Czech Republic.

Reports Issued by the Office of Inspections¹

INSPECTIONS

Embassy Cairo, Egypt (ISP/I-99-11)

Strong bilateral relations with Egypt are key to U.S. strategic interests in the Middle East, reflecting a multibillion dollar assistance commitment and its vital role in the Middle East Peace Process. Other key interests include working together against regional pariah states (Iraq, Libya, Sudan), the Gore-Mubarak Partnership in trade and development, antiterrorism efforts, and fostering of democracy and human rights. The Ambassador and DCM pursue these interests effectively, through intense diplomacy and a series of "cluster groups" which focus mission leadership, consensus, and energy on U.S. policies and programs. Special emphasis is given to security in the wake of the East Africa bombings, and to business promotion. Heightened security risks and declining assistance funds should accelerate mission review of staffing levels to identify positions to be eliminated. The Strategic Dialogue at the Foreign Minister level and the Gore-Mubarak Partnership have helped offset a common perception that U.S. interest in Egypt is confined to the Middle East Peace Process. The Ambassador and USIS have revitalized a cultural and American studies program to soften the U.S. image and buffer inevitable strains arising from the Peace Process and reductions in aid.

Embassy Cairo cannot carry out its job of encouraging the Middle East Peace Process if it is not kept consistently informed; this was not the case during the Wye Summit. More timely high-level feedback is essential in the sensitive post-Wye era and continuing struggle with Iraq.

Egypt has critical Y2K problems that will not likely be fixed before January 1, 2000. Disruptions of essential utilities, on which the embassy depends, can be anticipated in electric power and water, transportation and telecommunications, health care, banking, and pensions. Contingency plans for major disruptions should be made.

¹ Inspections carried out by the Office of Inspections comprehensively review the operations and overall management of a given post, mission, bureau, or office of the Department of State, Arms Control and Disarmament Agency, U.S. Information Agency, or the Broadcasting Board of Governors, without attempting to evaluate in-depth any particular function or program. Their main purpose is to bring important issues and management deficiencies to the attention of senior management together with recommendations for corrective action, although they also include self-evaluation and self-correction through counseling.

Public diplomacy is well-integrated into mission operations, and USIS is well positioned for consolidation. A public affairs strategy to publicize accomplishments and changes in U.S. assistance programs is needed. The USIS Alexandria program is valuable and effective. Several OIG recommendations address problems at the Fulbright Commission. A USIS program funded by USAID with wide interagency mission support has sent many judicial grantees to the United States and improved the administration of justice in Egypt.

The large, unwieldy Economic-Political section is under new management, and the new minister counselor is fashioning it into a well-coordinated operation while maintaining its excellent and prolific output. OIG has recommended that the section prepare a formal internal reporting plan for adequate political/economic coverage of Alexandria to make up for the loss of reporting since the consulate general closed in 1993.

The consular section gives excellent and speedy customer service for nonimmigrant visas and U.S. passports, and adjudicates immigrant and diversity visas and refugee documents in a timely fashion. The warden system is very efficient. Antifraud efforts should be reinforced.

COMPLIANCE FOLLOWUP REVIEWS

Embassy Hanoi, Vietnam (ISP/C-99-13)

The followup review found that Embassy Hanoi had complied with the recommendations contained in the original inspection report and, although one recommendation needed to be modified and reissued, there were no new recommendations. The relationship between the embassy and Consulate General Ho Chi Minh City is still developing, and the Ambassador and consul general are working assiduously to minimize what had been bothersome frictions. Some recommendations addressed to Department's entities had not been acted on in a timely fashion, but the review determined that problems addressed by those recommendations were either handled by other means, were overtaken by events or actions were under way to meet identified needs. While there has been progress on some real property issues, several issues need to be addressed in the future. Construction work on the interim chancery has been completed, but agreement still must be reached with the Vietnamese Government on a permanent site, construction must be completed on the office building for the consulate general in Ho Chi Minh City, and decisions will need to be made regarding the use or disposal of several U.S. Government-owned properties in Hanoi and Ho Chi Minh City.

Embassy Rangoon, Burma (ISP/C-99-14)

The followup review found generally good compliance on the part of Embassy Rangoon with the previous inspection, although it revised and reissued six recommendations. The review also issued one new recommendation to adjust staffing changes that resulted from implementation of an original recommendation. Conflicting U.S. policy goals in Burma continue to lead to policy conundrums for the embassy, but guidance has clarified parameters for contacts with Burmese groups. The senior staffing structure has been revised to reflect actual assignments more accurately. The post complied fully with recommendations in the consular area, but possible conflicts with U.S. restrictions on Burma impeded implementation of a recommendation regarding enhancement of U.S. border security goals. The review modified the recommendation in order to avoid that possible conflict. None of the recommendations dealing with real property questions have been implemented by the Department. The chancery in Rangoon continues to operate from an inferior structure, as does the general services operation. The review reissued all real property recommendations.

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